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The Montana Futures Project

REPORT ONE: SITUATION ANALYSIS and PUBLIC RESPONSE

November 1992

The Governor's Council for Montana's Future

STAFF: Montana Department of Commerce

CONSULTANT: National Association of State Development Agencies

The Montana Futures Project is charged with preparing a vision and agenda for the state's economic future, including goals for the stewardship and development of Montana's human, natural and industrial resources, and statistical benchmarks for measuring progress toward those goals.

The Project will work to establish "an orderly, continuous process which will allow Montanans to consider the facts, express their preferences, and permit priorities to be established and changed in light of current economic realities and citizen preferences."[1]

I. OVERVIEW OF THE MONTANA FUTURES PROJECT

The Governor's Council for Montana's Future, a non-partisan panel of over 20 citizens from all parts of the state and all walks of life, was assigned the above task by Governor Stan Stephens in February 1992.

The Council set out to chart the economic future in a new way, and to correct the problems typical of previous planning efforts, in which:

- plans were usually created by experts, and presented to the citizens only after they were done;
- good strategies were created, but not always implemented -- we planned what to do, but didn't always do what we planned;
- we were never able to say how well or badly our strategies, programs and policies worked, because the expected results--and agreed ways to measure the results--were not built in at the start.

•Public Participation--Report One. As the first and most fundamental step, the Council began by asking individual Montana citizens to declare what they want. Montanans were asked to consider the economic facts, then identify the key elements of their preferred vision of Montana's future, together with the actions to take, problems to solve and opportunities to seize in order to achieve that future.

To get these answers, we met with over 870 citizens at 29 town meetings all across the state in May and June. Next, we conducted a statewide random telephone survey--speaking directly to yet 400 more Montanans--to delve into the issues that emerged as most important in the town meetings.

This first Report summarizes the **economic situation analysis** presented at the town meetings, and presents the **public response**--choices for Montana's future gleaned from the town meetings and telephone survey.

•Vision, Goals and Benchmarks--Report Two. The Futures Project's second Report will state a vision for Montana's future, and goals for reaching that vision, composed from the town meetings and surveys. Report Two will also introduce the element of accountability, by defining statistical benchmarks to measure the results Montana is looking for, and to mark progress along the way.

Do we want to increase incomes? How much, how broadly, and by when? Do we want to "diversify, strengthen and stabilize" our economy? What indicators will tell us that the economy is more diverse, strong and stable--or less? What exactly do we mean by those words--and how do we know if we're moving closer to the goal, or falling further away?

By setting benchmarks in advance, we can hold our institutions accountable--and prevent gamesmanship by factions who choose the numbers that bolster their own positions.

Finally, Report Two will make recommendations for continued citizen leadership of economic development planning. By providing authority and resources for citizen-led oversight, reporting, review and redirection of economic development activity, the Governor and Legislature can assure that accountability is enacted.

•Action Plan--Report Three. The Montana Department of Commerce and its consultants for the project, the National Association of State Development Agencies, will present an action plan in Report Three, including suggested strategies, actions and programs for reaching the public's goals and vision.

Report Three will be presented as a menu from which an incoming administration and legislature can select options for moving in the directions defined in the public input and participation stage of the Futures Project.

•Top-down versus bottom-up. Because we began with citizen input, and end with citizen oversight, some have referred to this Project as "bottom-up" planning. We prefer to think of it as "top-down"--with the top being the citizens of Montana. The Montana Futures Project is a success, if the means are put in place for Montana's future to become Montana's choice.

[1] Montana Economic Study, Bureau of Business and Economic Research (University of Montana, Missoula: 1970).

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II. ECONOMIC ANALYSIS: SHORT-TERM TRENDS AND LONG-TERM STRUCTURAL CHANGE

A. SHORT-TERM TRENDS

1. The early 90s, versus the decade of the 80s: mixed signals.

Since the turn of the decade, Montana has received a continuing stream of positive economic news, culminating in late 1992 with the state's unaccustomed but widespread recognition as one of the brightest spots in the national economy.

Montana has held a national leadership position in per-capita income growth since 1989, when the state registered a 9.4% increase over the previous year, compared to a U.S. average of 6.6%. But our comparative performance in 1991-1992 surpassed even that record: Montana's annual per-capita income growth rate of 7% was number one in the nation.

A variety of other good news reinforces the per-capita income statistics.

- Montana's Department of Labor and Industry reports that total non-agricultural employment has increased every year for six years running, from 275,400 in 1986 to over 312,400 in August, 1992.
- US West Corporation, in a June 1991 report, identified Montana as "truly one of the West's biggest comeback stories of the late 1980s," based on 1989 to 1990 net employment growth among small businesses of 9.8%, buoyed by a 31.9% growth rate among small exporting companies.
- Using a five-part performance index, *U.S. News & World Report* ranked the Montana economy sixth in the nation, in a September 14, 1992 article.
- On September 21, Kemper Securities' Tax-Exempt Fixed Income Research Report ranked of Montana as the nation's number one state economy, on an index composed of changes in employment, home sales, mortgage delinquencies and foreclosures, and unemployment rates.
- Even the composition of production seems to be changing in the direction long advocated by economic policymakers, as exporters of value-added products increased their share of total Montana export sales, from 16% in 1987 up to 29% in 1992.

So there is much good news. But, given the booms and busts in our history, we Montanans have learned to take economic upturns with a grain of salt. And there is indeed a gloomier side to our recent economic history. Despite Montana's current leadership in per-capita income growth, over the whole decade of the 1980s Montana's real per-capita income grew only one-third as fast as income for the U.S. as a whole.

One consequence of relatively slow growth in incomes for the decade was an increase in poverty: the percentage of Montanans living in poverty rose from 12.3% in 1979 to 16.1% in 1989--an increase from 94,300 persons to 124,900 persons living in poverty. And Montana's slow growth in population had the widely-publicized political consequence of causing the state to lose one of its Congressional representatives.

Good news and bad news. Which picture is the true picture? In fact, they both are true. These seemingly contradictory facts illustrate a business cycle, with a heavy downturn in the first half of the decade followed by moderate recovery beginning in 1987.

It is important for us to look beyond these short-term cycles, and recognize the long-term structural changes that are transforming our economy.

After reviewing some highlights of an economic forecast to the mid-90s, we will return to the theme of long-term structural change and its significance for our state.

2. The mid-90s: a short-term forecast.

Using an econometric forecasting model created by the Bureau of Business and Economic Research at the University of Montana, NASDA forecast the state's economic performance, for industrial sectors and substate regions, through 1994, taking 1990 as a base year.

Highlights of the forecast by industrial sector are:

- Mining (-6.2%), wood and paper manufacturing (-11.9%), railroads (-10.2%), and agricultural services (-6.8%) are all expected to decline from 1990 to 1994 in real labor income.
- The service-producing sector will continue to grow from 1990 to 1994 in both real labor income (9.7%) and employment (7.8%).
- Farming is expected to experience strong growth from 1990 to 1994 in real labor income (24.0%).
- Tourism expenditures should continue to increase moderately between 1990 and 1994.
- The federal government "industry" can be expected to play a diminished role in Montana's future, as employment in that sector continues to decline.
- Statewide real labor income (5.7%) and employment (3.8%) will both increase from 1990 to 1994 as a result of growth in farming and the service-producing industries.
- Statewide total real personal income--which includes such categories as dividends, interest, rents, and transfer payments--is forecast to decrease 3.0% from 1990 to 1994, largely due to lower interest rates and falling rents nationwide.

B. LONG-TERM STRUCTURAL CHANGE

Beneath Montana's characteristic boom-and-bust cycle there lie concealed some surprisingly consistent and large long-term transformations. Deeply-embedded changes of this kind, which persist through cyclical ups and downs, are referred to as "structural." Structural changes give us a sense of predictable directions underlying the volatility of recent and current events.

1. Shifts in Employment Share.

Since the end of World War II, the Montana economy, like the U.S. as a whole, has moved from goods producing toward service producing. This movement has occurred for many reasons, including global competition, changing technology and changing consumer preferences.

The extent and persistence of these structural changes in Montana's major industries is demonstrated in the following figures, drawn from the Montana Department of Labor and Industry's Bureau of Research and Analysis. Going back to 1947 and forward to 1997, these figures cover 50 years of employment history in our state, and they show graphically what we mean by a long-term structural change.

- The percent of Montana's employment provided by mining, logging and lumber, and agriculture has been cut in half over the past fifty years.
- Finance/insurance/real estate, wholesale and retail trade, and general services have **tripled**, from 19% to 58% of all nonfarm jobs.
- The traditional natural resource industries are shrinking in **percent share**, but no **absolute numbers** of jobs and income dollars. These industries will remain large, important and viable in Montana, and must have a central role in any realistic plan for the future.

• **Mining employment.** Over 50 years, mining's share of employment has fallen by more than half, from 7% of all Montana employment to 2%. Between 1947 and 1991, actual numbers of mining jobs fell from 9,600 to about 6,000.

• **Manufacturing.** The percentage share of Montana's employment provided by this industry, which includes logging and lumber, has fallen over the 50-year period, from 18.4% of all non-ag jobs, to 7%. The steady decline in employment share does not in this case mean a decline in absolute numbers of jobs. From 1947 to 1991, manufacturing jobs increased slightly, from 18,400 to 21,700. Manufacturing and timber employment are not disappearing; but they are becoming a smaller part of the total picture.

• **Transportation, communications and public utilities,** has experienced a 50-year drop from 16% of total non-agricultural employment to 7% of the total. However, absolute numbers of jobs in this industry have remained almost steady, at 22,200 in 1947 versus 20,300 in 1991.

• **Government**'s share of employment also has declined sharply in Montana, from 27% in 1974 to 22% today.

• Agriculture. We also see clear evidence of a downward long-term direction in share of total employment held by Montana's largest traditional basic industry. From 1970 to 1990, agriculture's share of total employment fell from 12% to 7%. Total Montana employment rose from 299,800 in 1970 to 438,000 by 1991, while agricultural employment fell from 36,500 to 30,700.

It is important to realize that, negative as they may be, these figures record the success of these mature industries in meeting the competition by becoming more efficient, year after year. Efficiency means less units of input per unit of output; the bad effect is that labor and total wages in these industries are therefore in relative decline.

But the news is by no means all bad. Recall that total employment has risen sharply over the full period, **increasing by almost 37,000 jobs just between 1986 and 1992.** While some industries are losing percentage share, some other industries have been gaining both percentage share and absolute numbers in jobs and wages.

• **Finance, insurance and real estate** employment went up steeply, doubling from 2.6% of total employment to almost 5%, in 50 years an increase from 3,600 jobs to a projected 14,500 jobs in 1997.

• **Wholesale and retail trade** increased from 25% to 27% of all employment. As this industry is so large in absolute numbers, 2% gain translates into a jump from 34,100 up to 85,000 jobs, over the 50 year period.

• **General services** recorded the largest gains of any major industry group. This category, which includes all the professional occupations, grew steadily for the whole 50 years, from 13% to 26% of all nonagricultural jobs. That represents growth from 17,400 to a projected 81,000 jobs in 1997--**an average annual gain of 7.3% sustained for 50 years.**

The structural change, then, is clear: a large, long and consistent movement in share of employment from goods-producing to service-producing industries. This also represents a movement from the "basic" sector, which exports its production to other states and countries, to the "derivative" or domestic sector, which primarily serves local residents.

The figures demonstrate, the ability of the so-called "derivative" industries to keep growing, over an extended period of years, and even to grow rapidly, when the "basic" industries are not growing or are growing very slowly.

2. Results of Structural Change: Montana's Largest Industries.

As a result of these structural changes, Montana's economy has become different from what we are accustomed to thinking it is. It is not just an economy that is going to change--it is an economy that has already changed.

Most Montanans who attended the strategic planning town meetings shared the opinion that our largest industries are agriculture, tourism, lumber and logging (which are included in manufacturing) and mining, in about that same order.

The following figures summarize the current facts of the matter--the most relevant and accurate figures we have by which to rank industry size: employment and personal income.

MONTANA'S LARGEST PRIVATE INDUSTRIES BY NUMBERS OF PERSONS EMPLOYED are, in order: **#1, services** (26.7%); **#2, retail trade** (18.7%); **#3, farming/ranching** (7.0%); **#4, finance/insurance/real estate** (6.4%) and **#5, manufacturing** (including logging and lumber 5.6%). If all levels

of government are included, they would come in third place, providing 18.4% of total employment.

MONTANA'S LARGEST INDUSTRIES BY PERSONAL INCOME AND EARNINGS: once again, **#1 is services** (24.4%) and **#2 is retail trade** (12.6%), followed by **#3, transport/communications/utilities** (9.0%); **#4, manufacturing** (8.2%); **and #5 farming/ ranching** (6.0%). If public employment is included, all levels of government would come in second place, providing 21.1% of total earned income.

3. Montana Mirrors the National Economy.

When we compare Montana to the U.S., we see that the changes are similar. Mining's share of employment was cut almost in half, between 1960 and 1990, in both Montana and the U.S. Montana manufacturing fell from 12% to 7.5%, while U.S. manufacturing was falling from 31% to 19%. And in both Montana and the U.S., the service sector grew, to represent 63% of nonfarm Montana jobs and 59% of nonfarm jobs in the U.S.

This tells us that we are not alone, but that we are responding to changes in the global economy, just as the United States as a whole is responding. The changes we see in Montana are not the result of special circumstances, policies or business climate issues in Montana alone. The same changes are happening across the nation.

STRUCTURAL CHANGE IN U.S. AND MONTANA INDUSTRY EMPLOYMENT

Employment Trends as a Percent of Total Nonfarm Employment

Year/Industry Sector	1960	1970	1980	1990
MT Mining	4.4%	3.3%	3.1%	2.1%
U.S. Mining	1.3%	0.9%	1.1%	0.7%
MT Manufacturing	12.2%	11.9%	8.6%	7.5%
U.S. Manufacturing	31.0%	27.3%	22.4%	19.0%
MT Service-Producing	53.7%	53.3%	58.0%	63.0%
U.S. Service-Producing	46.9%	49.0%	53.7%	59.0%
MT Government	23.1%	26.1%	25.0%	23.9%
U.S. Total Government	15.4%	17.7%	18.0%	16.5%

Source: *Annual Planning Information for 1991-1992*, Montana Department of Labor & Industry, and the 1991 *Statistical Abstract of the United States*, U.S. Department of Commerce.

4. Changes in the Composition of Personal Income--a New Industry?

Momentous as it has been, the shift in Montana's industrial sector employment profile has not been the only major structural change of the last several decades. The **composition of personal income**--the proportion of Montana income derived from "earned" sources such as labor and proprietors' income, versus the proportion coming from "unearned" sources such as dividends, interest, rents and transfer payments--has also changed dramatically.

In 1960, unearned income constituted 23.1% of all Montana personal income. The corresponding U.S. figure was 20.4%. **By 1990, 39.7% of all income in Montana was derived from "unearned" sources (such as social security and medicare)--a 72% growth in this category, over the 30-year period.** The U.S. figure had also increased, to 32.5%.

The nearly 40%, or $4.6 billion of 1990 Montana income drawn from dividends, rents, interest and transfers was over seven times farm/ranch earnings that year (both proprietors and labor taken together); it was 2.7 times larger than earnings from mining, timber and other manufacturing, construction and farming/ranching combined.

This structural income change can be understood as tracking the growth of a new "industry" that, like tourism, is outside the bounds of the standard industrial classification categories, and beyond the horizons of conventional economic development planning: the retirement industry.

With its $4.6 billion, rapidly-growing income stream--compared to $760 million in 1990 nonresident travel expenditures--the retirement industry can be thought of as the iceberg of which tourism is the visible tip. Growth in both tourism and retirement are driven by the ageing of the U.S. population, and both are attracted to similar, high-amenity locations.

As the "baby-boomer" demographic bulge moves upward in age, we can expect the proportion of unearned income to continue to increase rapidly--although bear markets in rental values, corporate dividends and interest rates, and restrictions in growth of federal entitlements are forecast to dampen the growth over the next few years.

The implications for Montana's future, given the size and growth of income in this category, may be massive indeed. The potential exists for a forward-looking industry (the producers of retirement housing, elder recreation, medical and other goods and services targeted to this market) to create a self-financing promotional effort on the scale and model of the Travel Montana tourism program.

5. Some Causes and Implications of Structural Change.

This economic analysis presents a selection of some of the most crucial facts about the performance and evolution of Montana's economy in the last half of this century, as a context for decisions by the citizens of this state about their common future in the first half of the next century.

We will propose here only a few general ideas about the causes and consequences of structural change--interpretations which the Council and its consultants believe are firmly based on the history reviewed in the course of our work.

First, as to causes: we believe that a key prerequisite to dealing with these changes is to recognize that they are long-term and directional, rather than short-term and cyclical in nature. The traditional response of Montanans has been to view downturns as cyclical.

But many of the current "downturns" in Montana's economy are the result of permanent worldwide changes in the structure of supply and demand for many of the products of the western United States:

- the Green Revolution, with Europe and countries such as China and India now exporting food;
- the changing *structure of supply* in mineral products, with new technologies such as fiber optics replacing commodities such as copper;

• the changing *structure of demand*, as downsizing of automobiles and other machinery calls for fewer units of raw materials traditionally produced in the West.

Second, as to consequences: much of the data presented above illustrates the historical shift away from Montana's traditional resource-based, commodity-producing industries and toward a service and knowledge-based, specialty-production economy. The income composition numbers highlight a powerful companion shift toward earnings derived from a new and unconventional "basic" industry: retirement.

We want to emphasize that this information does not indicate that our traditional industrial base will shrink in numbers of jobs and dollars, or cease to play a main and essential role in Montana's future. The information at hand indicates only that the traditional industrial base is providing a smaller proportional share of incomes and employment in an expanding overall economy.

Any realistic plan for the future must include a leading role for our traditional "big three": agriculture, mining and lumber. But at the same time, the historical record and global dynamics make it clear that these industries will not be the source of the next round ot long-term growth.

The big three can be viewed as a stepping stone to investment, diversification and growth in progressively more specialized, value-added and knowledge-intensive markets. We must emphasize here that the traditional industrial base is a stepping stone, not an escalator. It is clear that we will not be carried effortlessly into a future of growing jobs and income if we just stand still on this base.

In the future, the natural resource sectors will also contribute a smaller share of state and local taxes, thus intensifying the erosion of Montana's already limited tax base. Such shifts in the tax base, if we do not adjust our tax structure to draw on the more rapidly-growing sectors, may make it extremely difficult for state and local governments to sustain the current level of services.

As global structural transitions continue, their impacts will ultimately move the U.S. economy beyond mass production toward increasing customization, beyond mass marketing towards niches and micro-marketing, beyond the monolithic corporation to new forms of organization, beyond managed trade between nation-states to operations that are both local and global, and away from manual labor, toward mental labor.

Montana's economy will be under pressure to respond in similar ways to the effects of these global changes.

Top Five Responses to Town Meeting Questions

	STATEWIDE	LARGE TOWNS	SMALL TOWNS	EAST	WEST
Q1: Goals & Vision	Clean environment Quality education Business-friendly climate Jobs to keep youth Balance, industry, environment	Clean environment Quality Education Business-friendly climate Jobs to keep youth Balance, industry, environment	Jobs to keep youth Clean environment Better employment Business-friendly climate Balance, industry, environment	Business-friendly climate Value-added products Develop tourism Jobs to keep youth Balance, industry, environment (clean environment = #13)	Clean environment Better employment Jobs to keep youth Balance, industry, environment Quality education (business-friendly = #6)
Q2: What must happen	Tax reform Attract business Planning and zoning Workers' Compensation reform Tax reform-sales tax	Tax reform Attract business Adequate education funding Planning and Zoning Tax reform-fairness	Tax reform Attract businesses Planning and zoning Workers' Compensation reform Less regulation	Tax reform Attract businesses Tax reform-sales Workers' Compensation reform Tax reform-for business (planning/zoning = #13)	Tax reform Planning and zoning Attract business Adequate education funding Quality education
Q3: Strengths & Opportunities	Natural resources Quality of life Use of resources Quality education Personal qualities	Quality education Work ethic Quality of life Natural resources Personal qualities	Natural resources Quality of life Use of resources Skilled workers Beauty of state (personal qualities = #6)	Natural Resources Use of resources Work ethic Quality of life Beauty of state	Natural Resources Quality of life Personal qualities Value-added products Quality education
Q4: Weaknesses & Problems	Poor tax structure Polarization/partisanship Workers' Compensation structure Short-term outlook Resistance to change	Polarization/partisanship Poor tax structure Short-term outlook Resistance to change Workers' Compensation structure	Poor tax structure Polarization/partisanship Workers' Compensation structure Out-of-state interests Resistance to change	Poor tax structure Workers' Compensation structure Polarization/partnership Too much regulation Out-of-state interests	Polarization/partisanship Poor tax structure Short-term outlook Resistance to change Lack of planning (Workers' Compensation = #6)

Question 1 = What are the elements of your optimistic view of how you would like Montana to be?
Question 2 = What things have to happen for your vision to come true?
Question 3 = What are the state's greatest opportunities and strengths?
Question 4 = What are the state's greatest weaknesses and problems?

III. THE PUBLIC RESPONDS TO MONTANA'S ECONOMIC SITUATION: TOWN MEETINGS AND TELEPHONE SURVEY

A. TOWN MEETINGS

As the first major activity of the Montana Futures Project, town meetings were held in 29 locations all across the state in the Spring of 1992. Over 870 Montanans attended.

A summary of the above economic analysis was presented, to provide a common background for discussion. Then, the citizens who attended were asked to break in to small "brainstorming" groups, to list the main elements of their optimistic **vision for Montana's future**, together with the main **actions** to take, **opportunities** to seize, and **problems** to overcome in order to realize our desired future over the next 20 years.

The Council believed strongly that the public should be approached first, with these broad, open-ended questions in order to define the general issues. After the main issues were defined by the citizens, we proceeded to much more detailed questions in a random sample telephone survey (covered in the next section of this report).

The town meetings revealed a surprising level of consensus on long-term goals, with strong common themes throughout the state, from large towns and small towns, and from East and West.

Alongside with the general consensus on goals, some regional diversity was evident. Western Montana residents, for example, ranked a clean environment as their top goal, while it ranked 13th among eastern Montanans attending the meetings. Eastern Montanans ranked business-friendly climate as the first goal, while Western Montanans listed it sixth.

In all areas of the state and all sizes of towns, however, both "balance between industry and environment" and "jobs to keep our youth in the state" ranked among the top five goals.

The table on page 5 summarizes the top five responses to all the town meeting questions--statewide totals, as well as from small and large towns, and from East and West.

B. RANDOM SAMPLE TELEPHONE SURVEY

To explore in greater detail the issues and concerns identified as most important in the town meetings, 407 Montana citizens in 97 communities were interviewed, using a 20-minute telephone survey. Questions targeted opinions about opportunities, strengths, weaknesses and problems related to Montana's economy and the natural and social environment. Many questions asked Montanans to rate responses on a scale of 1 ("poor" or "unimportant") to 5 ("excellent" or "very important"). Sometimes respondents were also asked whether matters they had rated "very important" were or were not "immediately urgent," requiring action within two years or less. Throughout the survey, issues were generally ranked 3.5 or higher, confirming the importance that the town meetings assigned to the same issues.

BALANCED GROWTH

Predominant in the responses was a demand for simultaneous improvement in what are sometimes seen as opposites--economic growth and job opportunity, on the one hand; quality of life and environmental preservation on the other.

Preserving Montana's quality of life is a major concern. Overall, respondents rate their current quality of life as very high--3.95 on a scale of 1 to 5. Montanans are torn between whether they believe the state is currently moving in the wrong (45.2%) or the right (35.9%) direction, with almost 19% undecided. However, 58% interviewed believe that Montana's quality of life will decline over the next 20 years if things continue as they are currently--emphasizing a perceived need for a strong stance on quality of life issues.

At the same time, over 95% of respondents believe that it is important for Montana's economy to become stronger during the next 20 years.

Additionally, when asked to rate the importance of various goals for economic policy, respondents specified the following priorities:

GOALS

1. **Growth in jobs and income** ***(4.38)***
2. **Economic stabilization and diversification** ***(4.18)***
3. **Preserving the environment and a traditional way of life** ***(4.10)***
4. **Balance between job growth and environmental preservation** ***(4.03)***

Note that all the above goals were ranked "important," and ranked very close together, reinforcing the conclusion from the town meetings that Montanans want both job/income growth and a quality social and natural environment--not one as opposed to the other.

Given the above priorities, Montanans were asked to identify what are the areas in which the state has the greatest problems. The responses in rank order were:

PROBLEMS

1. **Unemployment**
2. **Tax structure**
3. **Worker's compensation**
4. **Social Services (health care, welfare, education)**

GROWTH IN JOBS AND INCOME

Viewed together with other responses, it is clear that placing unemployment as number one is part of a broader concern about growth in jobs and income levels.

- Income and employment growth were the number one positive goals (above). An emphasis on job creation and retention was also evident in the social services policy area, where reform of the current welfare system to **move people into the job market** was given the highest priority, and also rated "immediately urgent" by 64% of those responding.
- During the 1980s, Montana's employment grew by 9%, about half the growth rate for the U.S. as a whole. Asked what they want Montana's rate of employment growth to be in the next 20 years, more than 86% responded that Montana employment should grow **at least** as fast as the U.S. rate.
- Likewise, Montana's average per-capita income in 1990 was only 80% of the U.S. average. Over 88% of those surveyed believe that during the next 20 years Montana's income should **at least become equal** to the national average.

As a qualifier to the support for growth, Montanans clearly appreciate their low population density and the high quality of life associated with it. 63% of respondents believe that Montana's current population is about right; 9.6% think it is already too large; 24% believe there are too few people.

TAX STRUCTURE

"Tax structure" was considered the second greatest problem facing Montana. Tax reform takes precedence over all other goals for government, for both importance (4.35) and urgency (47%), followed by **reducing bureaucracy and regulation** (4.31 / 43%); **reducing government spending** (4.23 / 46%); **reducing political partisanship** (4.11 / 31.%); and **improving land-use planning and zoning** (3.99 / 28.5%).

Clearly, "tax reform" means "tax reduction" first. However, many Montanans say they would be willing to accept a tax increase for certain specific purposes: **majorities were willing to accept a tax increase specifically for education (69.4%); health care and social services (53.8%); creation and expansion of Montana businesses (52.8%).** Minorities would favor an increase for **natural resource management (44.1%), infrastructure investment (40.3%) and attraction of businesses from outside the state (34.2%).**

Those willing to bear additional taxation were asked to describe the type of taxes they would prefer. The sales tax received the most votes among the 7 kinds of taxes listed (averaging about 33%), with the excise tax as a distant second at about 15%.

63.8% of respondents to the survey support state tax incentives to encourage out-of-state businesses to relocate in Montana. 84.0% were in favor of tax incentives to promote startups and expansions of businesses within the state.

WORKER'S COMPENSATION and BUSINESS CLIMATE

In terms of priorities for **business climate improvements, reducing worker's compensation costs** is rated first, followed (in order) by **investment in infrastructure** (4.04); and **improved access to financial capital** (3.84); **reducing/simplifying regulation** (3.54); **reducing business taxes** (3.42); and **more state programs to promote business/industry** (3.36). Reining in worker's comp was also overwhelmingly rated the most urgent action in this category.

Asked to rank **business assistance priorities**, respondents placed "promoting and developing new and expanding business within Montana" first, followed (in order) by tourism, value-added products and recruiting out-of-state companies.

Stabilization/diversification. Montana respondents recognize the importance of diversifying their economy to meet the challenges of a globalized market. Their ranking of various industries in order of importance to Montana's economic future, is as follows:

Tourism	**4.48**
Farming and mining	**4.41**
Retail and wholesale operations	**4.09**
Lumber and wood products	**4.02**
Services	**3.96**
Export operations	**3.95**
Telecommunications & Transportation	**3.93**

SOCIAL SERVICES

The fourth problem area in order of priority was social services--including education, health care and housing.

For education, respondents ranked producing a well-educated labor force highest, followed by improving the general quality of the education system, increasing innovative educational programs, and improving equity in educational opportunity. In the health care and other social services area, reform of the welfare system to improve service and move people into the job market ranked first, followed by making health care more affordable and accessible, reducing the cost of welfare programs, and establishing universal health coverage.

The importance attached to health and education issues is reinforced by the willingness of majorities of Montanans to accept tax increases aimed specifically at improved performance in these areas.

ENVIRONMENT AND THE ECONOMY

Though environmental preservation and sustainability did not emerge as a key problem area, these issues were at the very top of the list of Montanans' visions and goals for the future--a close second only to issues surrounding improvement in job and income growth, and clearly sought together with economic growth.

In rating environmental goals on a scale of 1 to 5, respondents gave equal importance to striking a balance between industry and environmental preservation (4.20), and reducing the influence of out-of-state forces on natural resource policy (4.19), attaching higher urgency to the latter. Increasing the utilization of Montana's natural resources ranked third as a priority (3.88), followed by promoting environmental protection as our major priority (3.28). Given the choice to continue, reduce or improve the current high level of compliance with water-quality standards, a majority of 63% responding believe that performance must improve.

What perhaps deserves most emphasis, in summary, is the almost universal demand for better economic performance (22% rating a stronger economy "somewhat important" and 74% rating it "very important"). This demand is closely linked with expectations of environmental balance and improvement, and accompanied by expressed willingness to support improved education and social services.

Those surveyed would like local governments and the private sector to take the lead in the state's overall development, with state government and public/private partnerships playing a lesser role and federal government the least important role.

IV. TOWARDS THE FUTURE: THE NEXT STEPS

In the closing months of 1992, the Governor's Council for, Montana's Future will move rapidly to conclude the first year's work on the Montana Futures Project, publishing two additional reports.

Report Two will specify **vision, goals and benchmarks** for our economic future--where we want to go, and how we'll know that we're getting

there. In addition, this report will make recommendations for permanent citizen oversight of planning, and for building benchmark and other performance measures directly into the state's budgeting process.

Finally, **Report Three** will address what we must do over the coming years and decades to realize our chosen economic future. This final report will be presented as a menu of **strategies, programs and actions** for selection and enactment by the new Administration and Legislature.

It is recognized that not all the suggestions in Report Three will be acceptable to both the legislative and the executive branches; we expect that some will be acted upon and others not.

Enactment of a comprehensive legislative program is not this project's objective, nor its criterion for success.

Instead, if the public's goals can be firmly established; if ongoing public participation in goal-setting is instituted, along with public oversight, reporting and redirection of development activity; if benchmarking for accountability is adopted; and if a combination of actions are started toward the goals--then we will be able to say that the "orderly continuous process" we were charged to create has been set in motion.

Readers wishing more detailed information may order the full-length version of Report One (64p.) from the Montana Department of Commerce.

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